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We'd rather pay than change
The politics of German non-adjustment in the Eurocrisis

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Abstract

Germany's large current account surplus has been widely criticized, especially against the backdrop of the Eurozone crisis where the burden of adjustment was borne almost entirely by the crisis countries. We argue that Germany's resistance to reduce its massive current account surplus through an expansionary policy at home is rooted in distributive struggles about the design of possible adjustment policies. In contrast, interstate financing – such as granting bailouts to crisis countries – is much less controversial, turning it into a politically more expedient choice. Using evidence from original survey data from 135 German economic interest groups, qualitative interviews with interest group representatives and policymakers in Germany, and data from public opinion surveys, we show that while there is general support for internal adjustment among German interest groups, they disagree heavily about which specific policies should be implemented to achieve this goal. Together with a broad public and elite-based consensus to avoid a break-up of the Eurozone, this polarization turns financing into the politically most attractive strategy. Rather than being rooted only in German ordoliberal ideas or Germany's export-oriented structure, distributive conflicts contribute significantly to Germany's resistance to reduce its large current-account surplus. This phenomenon can also be observed in other surplus countries, as a brief analysis of interest group dynamics in Austria and the Netherlands shows.

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1 Introduction

Germany's massive current account surplus has been widely criticized in recent years. By exporting more than it imports and saving more than it consumes and invests at home, the country has accumulated the world's largest current-account surplus, reaching almost 8% of its GDP in 2017 (IMF, 2016). Even though there is considerable debate among economists about the sources and possible remedies to the German current account surplus (e.g. Kollman et al., 2015) Germany faces considerable political pressure to rebalance its current account. International policymakers such as the French president, the director of the International Monetary Fund, the head of the ECB, and the US president have decried the German current account surplus as "unbearable"[1], a "serious threat"[2], an "unresolved issue"[3] and quite simply "very bad."[4] Germany's apparent unwillingness to adjust its domestic policies in an effort reduce the surplus has been criticized especially against the backdrop of the Eurozone crisis, in which the burden of adjustment has been borne almost entirely by the crisis countries (Blyth, 2013; Wolf, 2013; Eichengreen, 2017; Frieden and Walter, 2017). During the crisis, an expansion of German domestic demand could have helped crisis countries by creating additional export opportunities and countering the deflationary pressures within the union as a whole. Although the size of these possible spill-overs remains contested (Caporale and Girardi, 2013; Blanchard et al., 2017), Germany resisted political pressure to share the adjustment costs in the Eurocrisis. More generally, despite the mounting international pressure, the German government has done little to implement policies designed to spur domestic demand and investment (IMF, 2016).

This lack of adjustment is puzzling for a number of reasons. Although some argue that Germany has no direct economic interest in reducing the surplus (e.g. Felbermayr et al., 2017), the perceived lack of public and private investment in Germany has fueled heated debates over the country's "investment gap" and ability to sustain future growth (Bach et al., 2013; Südekum and Felbmayr, 2017). The surplus also leaves the country exposed to negative economic and political developments abroad. For one, Germany's high export-dependence leaves the country vulnerable to economic crises abroad . Moreover, because a

[1]Bloomberg (2017), "France's Macron Says German Trade Surplus Harmful to EU Economy", 17.04.17.

[2]IMF (2017): "Transcript of an Interview with IMF Managing Director Christine Lagarde with the Leading European Newspapers Association", 20.04.17.

[3]ECB (2017): "Press Conference with Mario Draghi, President of the ECB, 9 March 2017."

[4]CNBC(2017): "Trump reportedly calls Germans 'very bad'", 26.05.17.

current account surplus is always associated with net capital outflows, German investments abroad are exposed to financial crises and value losses abroad (Baldi and Bremer, 2015; IMF, 2017; Krebs and Scheffel, 2017). This is particularly true to the extent that global or regional imbalances and the credit booms they fuel have often been a key driver of balance-of-payments crises (Schularick and Taylor, 2012). In the Eurozone crisis, for example, the countries with the biggest current account deficits were hardest hit by the crisis (Johnston et al., 2014; Wihlborg et al., 2010; Baldwin and Giavazzi, 2015) and German banks were heavily exposed to the risk of a default in deficit states (Bibow, 2013; Vermeiren, 2014). In political terms, Germany's surplus has fueled resentment on the part of deficit countries, pressure by international institutions such as the International Monetary Fund (IMF) or the European Commission, and, perhaps most threatening to Germany, protectionist impulses among major trading partners such as the United States. This has created incentives to reduce the current account surplus that go beyond a purely economic rationale. Nonetheless, Germany has not engaged in large-scale macroeconomic adjustment designed to reduce the current account surplus.

This paper takes this puzzle as the starting point and examines why German policymakers have resisted a substantial rebalancing of the current account, especially in the context of the Eurozone crisis. We are of course not the first to examine this issue. Two existing explanations dominate the literature and the public debate. The first emphasizes the importance of ordoliberal economic ideas in German (and other surplus country) policy circles and the wider public (Matthijs, 2016a; Dullien and Guérot, 2012; Young, 2014; Bulmer, 2014; Wendler, 2014). These strongly-held beliefs about the axiomatic merits of prudent fiscal policies and limited state involvement in the economy have shaped the way policymakers interpret policy problems such as the Eurozone crisis. They also provided German decision-makers with a clear instruction sheet for how to deal with the crisis: deficit states needed to reform their economies to bring down public debt and regain competitiveness, any provision of financial help needed to be linked to tight conditions to avoid moral hazard and most importantly, a reduction of imbalances by engaging in less fiscal discipline and/or stimulating growth and inflation in surplus countries would only risk their hard-earned standing on international markets and endanger price-stability (Matthijs and McNamara, 2015; Matthijs, 2016a; Young, 2014; Schäfer, 2016). The moralizing framing of the Eurozone crisis as a debt crisis (e.g. Wendler, 2014) and emphasis on maintaining a balanced budget is seen as evidence for the dominant influence of ordoliberal ideas on German policymaking. Many authors therefore suggest that adherence to these ideas rather than material interests shaped surplus countries' behavior in the Eurozone crisis, with some even suggesting that the German crisis response went against Germany's economic self-interest (Matthijs, 2016a; Young, 2014). This contrasts with the second dominant explanation for Germany's resistance to rebalance, which is rooted in the literature on comparative capitalisms (Hall and Soskice, 2001; Baccaro and Pontusson, 2016) and focuses on the structural importance of the export sector for the German economy. This structural perspective holds that the need to preserve shelter the competitiveness of German export sectors created a large coalition of policymakers, employers and workers opposed to measures that would expand domestic demand, lead to higher inflation, and a rise of the domestic wage level (Thompson, 2015; Leupold, 2015; Mahnkopf, 2012; Schimmelfennig, 2015a; Höpner and Lutter, 2014a). At the same time, the German growth model relies on a stable monetary union and benefits from a situation in which the German real exchange rate is structurally weaker than it would be if Germany returned to a national currency citepStreeck2015a, Hall2012, Leupold2015. Because Germany and other surplus countries wanted to preserve their growth model while at the same time safeguarding the Eurozone, adjustment was consequently pushed on to the crisis countries (Hall, 2012).

Both of these approaches provide valuable insights into the sources of the German surplus, yet they also leave open some question marks. For one, both of these dominant explanations paint a picture of Germany as being united in its resistance towards macroeconomic adjustment, either because of the dominance of ordoliberal ideas or because safeguarding the export-led growth model constitutes the national interest. Yet adjustment politics in surplus countries generate significant domestic distributive conflicts (Frieden and Walter, 2017), analogous to the distributive struggles that characterize balance of payments adjustment in deficit countries (Eichengreen, 1992; Simmons, 1997; Walter, 2013). It is not obvious, for example, why labor unions representing workers in the non-tradables sector should support wage restraint against the backdrop of a record and widely criticized trade surplus. And indeed, as we will show below, the policy preferences of different economic groups in Germany differ considerably. By assuming a homogenous national interest or national economic ideology, the existing approaches cannot account for these differences and their influence on German policymaking. Second, the existing approaches concentrate predominantly on fiscal and monetary policy as well as wage-setting issues. Macroeconomic adjustment decisions are, however, multidimensional. The German decision not to adjust has significant consequences abroad, which puts the stability of the Eurozone in question and increases the financing needs of those countries running large current account deficits, especially those facing difficulties of meeting these demands by enough private capital inflows. Understanding why Germany opted not to adjust internally, thus also requires understanding how German decision-makers evaluated these alternatives relative to the option of implementing domestic policies designed to reduce the current account surplus.

Our paper contributes to such an improved understanding of German policymaking by focusing on studying the drivers of Germany's policy responses to the Eurozone crisis. Our paper starts from the insight that severe balance-of-payments imbalances were a key cause of the Eurozone crisis (Jones, 2015; Lane, 2013; Obstfeld, 2012; Baldwin et al., 2015; Frieden and Walter, 2017). For surplus countries, there are three ways of responding to such a crisis: external adjustment, internal adjustment and the financing of imbalances (Frieden and Walter, 2017; Pepinsky, 2014). We argue that economic interest groups in surplus countries differ significantly in how much they are helped or hurt by each of the available policy options, and therefore also vary in their evaluation of these options. Rather than reflecting a uniform preference for financing, we argue that Germany's resistance against internal macroeconomic adjustment is rooted in the distributive struggles about the design of possible adjustment policies that result from these differences. Internal adjustment is likely to be particularly contentious, because it can be implemented in many different ways, many of which benefit some groups, but hurt others. As a result, even in situations in which there is general support for strengthening domestic demand, there is likely to be disagreement about how to achieve that goal, making internal adjustment politically difficult. Together with a broad elite and popular consensus to avoid a break-up of the Eurozone, the political difficulties of forging a consensus on how to reduce the current account surplus make interstate financing a politically attractive strategy. This is especially true when the resistance to such a strategy is low, or when there is a consensus on the preferred financing strategy.

We examine this argument using original survey data from 135 German economic interest groups, first-hand qualitative interviews with German policy-makers and interest-group representatives, as well as public opinion data. We show that crisis policy preferences in Germany are much more diverse and that internal adjustment is viewed much more positively than both the ideas-based and the growth-model argument suggest. However, we also show that different types of interest groups, such as employer associations, trade unions and social policy groups, vary significantly in their support for and opposition to the specific policies that could be implemented to internally rebalance the current account. Whereas a large majority of interest groups supports internal adjustment via policies that are to their advantage, support drops significantly when internal adjustment involves policies to which they are opposed, whereas support for financing increases. Because interest groups also view financing as a much less salient issue and because the public shared interest groups' resistance to a break-up of the Eurozone, financing is the politically more expedient alternative. Our analysis also shows that these dynamics can be equally observed in other Eurozone surplus countries, such as in Austria and the Netherlands.

By demonstrating that the German export surplus is less structural than existing approaches recognize, our paper suggests that a rebalancing of the German current account is not impossible. Rather, it will be necessary to design a policy mix that appeals to a broader coalition of interest groups. Our results also suggest that as the costs of the alternatives – a breakup of the Eurozone, financing of deficit countries, or even retaliatory and protectionist reactions by other countries – rise, support for internal adjustment is likely to grow. More generally, our paper shows that distributive struggles underlie the political stickiness of large current-account surpluses and thus adds to our understanding of the persistence of balance- of-payment imbalances at the global level.

2 Distributional Conflicts and the Politics of Non-Adjustment

We argue that non-adjustment in the face of a large current account surplus is rooted in distributional conflicts about the specific design of internal adjustment and the attractiveness of the alternatives, external adjustment and financing. Although most economic actors could benefit from some internal adjustment measures to expand the economy, most of these measures also inflict substantial costs on others. The resulting polarization in opinions about how internal adjustment should be achieved, makes internal adjustment politically costly. Because financing tends to be a less divisive policy, it presents itself as a politically more viable option than internal adjustment.

2.1 Strategies in Balance-of-Payment Crises

The Euro crisis is at it's heart a balance-of-payment crisis. Though the question how these imbalances accrued is still subject to some debate, a broad consensus has emerged, that the economic problems of the Eurozone eventually manifested themselves in severe balance-of-payment issues (Jones, 2015; Lane, 2013; Obstfeld, 2012; Baldwin et al., 2015; Frieden and Walter, 2017). For surplus countries, there are three ways of responding to such a crisis: external adjustment, internal adjustment and the financing of imbalances (Frieden and Walter, 2017; Pepinsky, 2014). *External adjustment* is usually achieved through adapting the nominal exchange rate. An appreciation of the exchange rate increases the price of domestically produced relative to foreign goods, stimulates imports and thus leads to a reduction of the surplus (Frieden, 2014). Of course, if imbalances arise within a monetary union, a change or relative exchange rates requires (at least a partial) break up of that union. For surplus countries in the Eurozone, external adjustment would thus not only mean to accept that some members leave the common currency but also the uncertainty and potential financial turmoil caused by such steps. A second strategy to rebalance the current account is *internal adjustment*, in which relative price levels are adjusted through macroeconomic demand management. In order to reduce surpluses, governments in this scenario spur domestic demand and allow wages to rise which leads to more imports and a reduction of the export overhang. However, what is important about internal adjustment is that, at the policy level, it can be achieved through various ways. Policymakers who want to increase domestic demand could as much step up public investment in infrastructure and schools as they could reduce corporate taxes and cut red tape for businesses to incentive private investment (Bernanke, 2015). Similarly, they could raise the minimum wage, increase pensions, or expand unemployment benefits (Eichengreen, 1992). While all these measures should in theory contribute to the macroeconomic goal of more imports and less exports, their distributional implications of course differ widely.

Finally, surplus countries can resort to *financing*. In this scenario, they refrain from adjusting their own economic policies and instead render deficit countries with the means to sustain their current account deficits (Copelovitch and Enderlein, 2016). Again, there are multiple forms of financing. Surplus countries can choose to directly transfer resources to deficit countries, either through once-off bailouts or, in the case of a monetary union, by implementing more institutionalized transfers such as joined automatic stabilizers. Transfers can also occur through the banking sector by setting out a debt relief for deficit countries or through monetary policies as higher inflation rates help deficit countries to deleverage and at the same redistribute from savers (mainly in surplus countries) to debtors (mainly in deficit countries). Of course, all these measures are costly. As often pointed, transfers, credits and debt relieves either put surplus countries' 'tax payers' money at risk or use it directly to ease crisis pressures. However, compared to internal adjustment policies, the distributional consequences of financing are much less clear cut. At some point, some tax payers will have to pick up the bill. But which taxpayers and at what in point in time remains an open question when financing policies are implemented. As Frieden and Walter (2017) put it, "balance-of-payment crises thus confront policymakers with a list of unattractive options." However, it is also important to note that while different forms of internal adjustment produce clear cut winners and losers, the costs of financing are much more abstract and dispersed and are likely to emerge at a distant point in time. As we show below, this has important implications for the politics of adjustment in surplus countries.

2.2 Trade-Offs, Vulnerability Profiles and Adjustment Politics

We assume that different economic actors form their preferences with regards to crisis management based on the trade-offs they make between the material costs and benefits of the three adjustment strategies outlined above. Building on Walter's (2008; 2013; 2016) work on adjustment politics in deficit countries, we conceptualize these trade-offs as "vulnerability profiles" that can be used to deduce testable hypotheses about the interests of different actors.

Figure 1 illustrates ideal type vulnerability profiles with regard to internal and external adjustment as well as corresponding preferences. Actors situated in quadrant 1 are vulnerable to expansionary domestic policies but would benefit from higher exchange rates or a break-up of the Eurozone and should thus prefer external adjustment over any other form of crisis management. The opposite is true for actors displaying vulnerabilities that fall into quadrant 3. These groups would gain from a boom in domestic demand and lose from an appreciation of their currency. They are thus expected to favour internal adjustment over a break-up or financing. Quadrant 2 depicts the situation for actors that are highly vulnerable

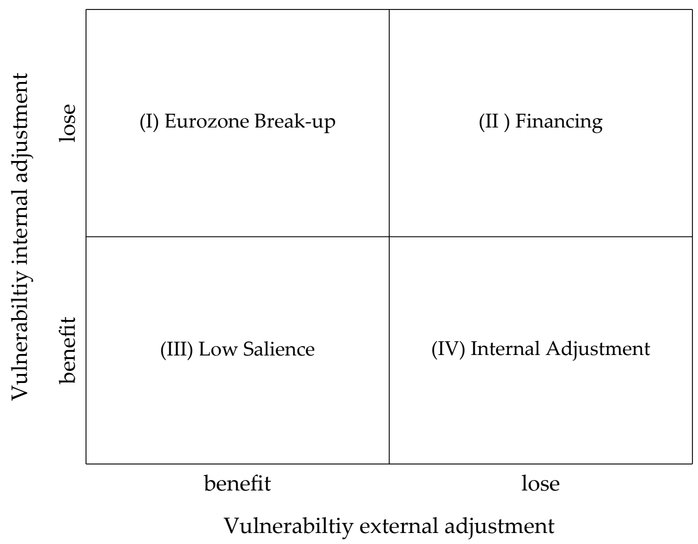
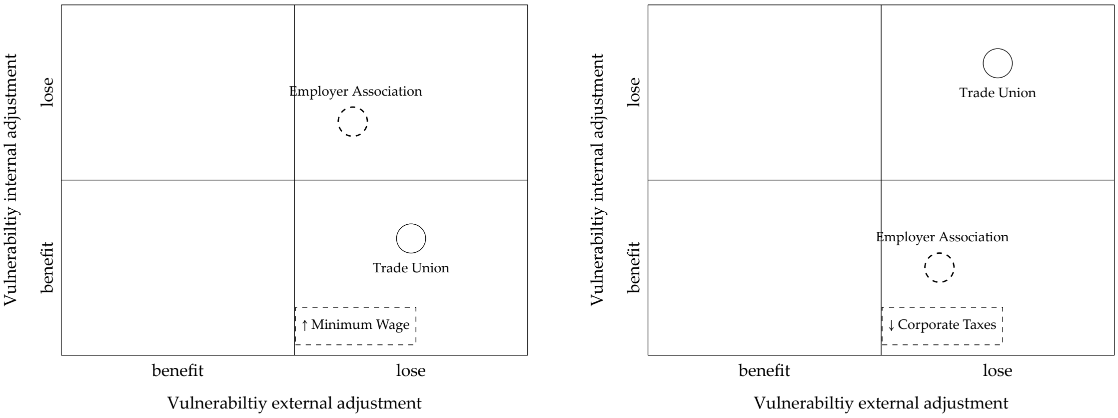


FIGURE 1: Figure 1 - Vulnerability profiles and adjustment preferences

to internal as well as external adjustment. These groups would be harmed both by domestic inflation and by a change in the composition of the monetary union. We thus expect these actors to be willing to provide deficit countries with some form of financing.

Assuming that actors base their preferences on trade-offs between the costs and benefits of different strategies thus results in straight-forward predictions about what crisis responses they favour. However, as outlined above, the costs and benefits of internal adjustment very much depend on the policies that it consists of. Figure 2 illustrates what this means for the preferences of economic actors. It shows the vulnerability profiles of two stylized groups - one trade union and one employer association. First, let's assume that both groups would lose from the uncertainty and turmoil linked to a break-up of the Eurozone. They are thus situated on the right-hand side of the profile. Whether they prefer internal adjustment or financing is now policy specific. In Panel A, internal adjustment is achieved through raising the minimum wage. Assuming that a significant number of members of the trade union would benefit from this, we would expect the group to champion internal adjustment. On the other hand, the employer association would clearly lose from this form of expanding domestic demand - especially if it represents firms that rely on low-paid workers. This puts the group in quadrant II. Being vulnerable to both a break-up and the specific form of internal adjustment on the table, it prefers the much more abstract costs of financing as a crisis strategy. The picture changes in a scenario in which policymakers decide to achieve more domestic demand by reducing corporate taxes in order to increase private investment



(A) Adjustment through higher minimum wage (B) Adjustment through corporate tax cuts

FIGURE 2: Figure 2 - Stylized examples: group-profiles depend on policy design

(Panel B). Now, the trade union, wanting to avoid the redistributive effects of tax cuts for businesses, champions financing, whereas the employer association turns into a proponent of internal adjustment.

The fact that preferences towards internal adjustment are policy specific has important political implications. To have a meaningful effect on the current-account macro, internal adjustment requires concerted efforts over a broad spectrum of policy fields. As Figure 2 illustrates, the distributional conflicts surrounding internal adjustment means that policy-makers that want to pursue this strategy, will find it difficult to build a coalition to back it up. While every policy they propose will garner support from some groups, it will also provoke fierce opposition from others. At the same time, we expect distributional conflicts about different financing policies to be less pronounced. While there multiple ways of implementing interstate transfers, its difficult to predict who exactly is going to have to pay the costs of these policies, independent of their specific design. Assuming that a majority of groups want to avoid a break-up, this makes financing, where costs are more abstract, more dispersed and less well-known, the politically more viable alternative.

These arguments have a four main empirical implications. First, many economic actors should find *some* forms of internal adjustment attractive. As long as domestic expansion is achieved through policies that benefit their material interests (i.e. if actors are situated in quadrant III or IV), we expect interest groups to prefer internal adjustment over financing or a break-up of the union. Second, however, we also expect economic actors to be polarized about *how* to adjust internally. As vulnerabilities to internal adjustment are policy specific, many groups should support some forms of it but also fiercely reject others. We propose that this polarization makes it difficult to build a coherent coalition in favour of rebalancing the current account. Third, while we expect internal adjustment to be subject to distributional conflicts, similar conflicts should be less pronounced when it comes to financing. The long-term costs of interstate transfers are more opaque and less well known. For interest groups they should therefore be of little political salience. Against this background, finally, we expect financing to be the an "easy out" for groups that want to avoid both a break-up and internal adjustment. The more vulnerable groups are to specific forms of internal adjustment suggested to them, the more likely they should be to support financing.

3 Research Design and Data

To understand what drove the preferences of German economic actors in the Eurocrisis and how these preferences translated into politics, we combine an analysis of original survey data with in-depths qualitative interviews with German interest-group representatives and policy-makers. Focusing our analysis on economic interest groups such as trade unions and employer associations comes with several advantages. First, these groups are central actors in economic policy making (Hall and Soskice, 2001; Thelen, 2012). Especially in coordinated market economies such as Germany, economic interest groups are deeply involved in political decisions concerning the functioning of the economy (e.g. Paster, 2012) and their concerns have been identified as crucial framework conditions in Germany's approach to the Euro crisis (Hall, 2012; Armingeon and Baccaro, 2015). Second, besides being substantially important in their own rights, economic interest groups also render crucial clues to their members and the broader public. Economic crises are complex events. To navigate these crises and to form their own preferences with regards to it, citizens therefore turn to political intermediaries for information and interpretation (Mcdermott, 2006; Kim and Margalit, 2016). Economic interest groups therefore not only represent important interests but are also likely to shape a wide range of preferences with regards to the Eurocrisis.

To examine our predictions about the drivers of group-level preferences, we therefore use original data from an online-survey amongst interest groups registered at the German Bundestag. Selecting groups from the Bundestag register ensures that they have preferences with regards to policies at the national level and fulfil a minimum requirement of organizational and political capacities. The register lists a total number of 2228 interest groups. We focus on "sectional interest groups" (Giger and Klüver, 2016), i.e. groups that represent the interest of a relatively well-defined subset of societal interests and we disregard groups that do not engage in economic or social policy-issues such as environmental groups, civil right, criminal, family-issue groups and the like. We also ignore small groups with less than 500 members. This leaves us with a total number of 488 groups that were contacted via two waves of emails and subsequent reminder phone calls. The surveys took place between September and December 2016.[5] 136 groups participated in the survey corresponding to a response rate of about 28 percent. This falls well into the typical range of response rates for interest group surveys (Marchetti, 2015). Of these groups, 56 percent are employer associations, 32 percent are professional associations, 7 percent are trade unions and 5 percent are social policy groups. This picture fits population of groups representing business interests in the lobby register as well as the more diversified organizational set-up of business groups in Germany (Dür and Mateo, 2013).

To complement this analysis, we furthermore conducted 14 in-depths interviews with interest-group representatives and policy-makers in Germany. The main goal of our conversations with interest-group representatives was to understand what motivated their preferences with regards to the management of the crisis and how they pursued these interests politically. We selected groups based on two criteria: first, their size and the relevance of their members for the overall economy. Second, we chose a set of groups that represented a wide range of sectors including manufacturing and services, domestic- and export-oriented associations and trade unions including members with different levels of income. Furthermore, we conducted interviews with policy-makers that were directly involved in decisions concerning the management of the crisis, including officials of the responsible departments in the finance ministry and the ministry for economic affairs and the major parties' rapporteurs for the crisis in the German Bundestag. We conducted all interviews between November 27 and December 8, 2017 in Berlin. A complete list can be found in the appendix.

[5]A key assumption interest group surveys rely on is that individuals answering the questionnaire reflect organizational positions rather their personal views. To make sure that respondents are knowledgeable enough to do so, we sent personal invitations either to the heads of specialized divisions such as economics, social policy or international affairs or to chief executives or board members. Furthermore, the phrasing of the questions throughout the survey constantly reminds respondents to answer with respect to their organizational positions.

3.1 Dependent Variable: Policy Preferences and Adjustment Choices

Our main dependent variable of interest is how German economic interest groups viewed the policy choices available in the Eurocrisis and which policies they prefer if pressed to choose. We construct this variable in two steps. First, we ask respondents to rank different policy options from within each strategy from their most to their least preferred option. Table 1 provides an overview of the different options respondents were asked to rank within each strategy.

Internal Adjustment Policies	Financing Policies	External Adjustment Policies
Public infrastructure spending	Provision of Emergency Credits	Deficit countries leave the EMU
Higher minimum wage	ECB bond purchases	EMU divides into North and South Block
Public spending on welfare	European Unemployment Insurance	Germany leaves the EMU
Decreasing VAT	Haircuts on public sector debts	
Decreasing corporate taxes	Haircuts on private sector debts	

TABLE 1: Overview of policy options in different adjustment strategies in the survey

We then use these rankings to build adjustment packages that represent stylized forms of internal adjustment, external adjustment and financing and ask respondents to choose their preferred strategy amongst them. As discussed above, each strategy can be implemented in very different ways. Since we are especially interested in how preferences change depending on the specific policy content of the different strategies, we ask respondents to select their preferred adjustment strategy twice. For their first choice, each set of strategies contains each group's most preferred options from within each strategy. If respondents, for example, state that of the different options for internal adjustment they liked public investment and a reduction of corporate taxes the best, they have to chose between these policies and their most liked options of external adjustment and financing. In a second step, the task is repeated but respondents now are confronted with adjustment strategies containing their least-liked policy options from within each strategy. The same respondent as above, for example, now has to choose between an increase of the minimum wage and more welfare spending as her least-liked form of internal adjustment, verses her most disliked form of financing an a Eurozone break-up. As a single form of internal adjustment or financing is likely to be insufficient for stabilizing the union, these packages each contain two policies

Q: Assume that your organization would have had the choice between the following hypothetical policy packages during the Euro crisis. Which one do you think would suit the interests of your members best?

A	B	C
• Provision of emergency credits to crisis countries	• No changes with regards to German economic policies	• No changes with regards to German economic policies
• A reduction of corporate taxes*	• No financial support for crisis countries	• Purchases of bonds and other financial assets from crisis states by the ECB*
• Increased public spending on infrastructure and education*	• Countries with large current account deficits such as Greece or Spain leave the Eurozone*	• A default of crisis-country sovereign debt held by the German state due to European bailout operations*
• All members of the Eurozone remain in the EMU		• All members of the Eurozone remain in the EMU

FIGURE 3: Figure 3 - Example Question on preferred adjustment strategy. Policies marked with asterisks are subject to previous ranking of policies within each strategy. A = internal adjustment; B = external adjustment; C = financing.

from within their respective strategies. To get at the trade-offs groups make between different strategies, each package furthermore lists the implications that following one adjustment strategy has with regards to the others (e.g. choosing financing as a strategy means not to engage in stimulating policies at home while at the same time allowing all member states to remain in the monetary union). Figure 3 presents an example for the choice interest groups are asked to make. We thus arrive at two sets of categorical dependent variables, one representing the respondents decision with regards to the adjustment strategies containing his most-liked policies, the other measuring preferences when each crisis management strategy lists her least-liked options.

Figure 4 shows the distribution of adjustment choices. When confronted with choices between packages that contain their favoured policies from within each strategy (left-hand panel), 67 percent pick internal adjustment as their favoured option, 18 percent go for financing and only 13 percent chose their most-liked form of a Euro zone break-up. The picture changes when respondents have to choose between strategies containing their least-liked policies. The share of respondents choosing internal adjustment. goes down to 29 percent. 27 percent of the groups now pick their least-liked form of financing and only 4 percent go for their least-liked scenario of a Euro zone break-up. Evidence that trade-offs are much harder in cases in which respondents are forced to choose between their least-liked forms of the different strategies can also be seen in the fact that 39 percent of the groups refused to take a stance by answering "Don't know".

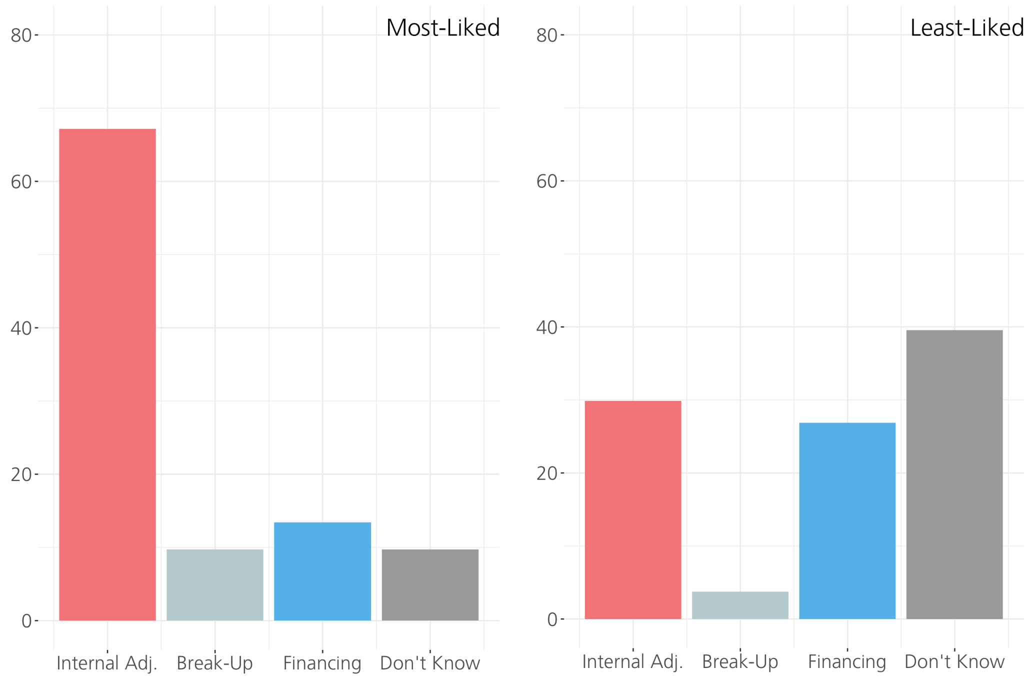


Figure 4: Figure 4 -Share of respondents choosing each adjustment strategy as their preferred crisis response; Panel A (left-hand side) displays choices between packages containing the respondent's most-liked policies within each strategy; Panel B (right-hand side) shows choices between strategies with least-liked policies

3.2 Independent Variables: Measuring Policy-Specific Vulnerabilities

We suggest that these adjustment decisions are informed by the trade-offs groups make between the individual material costs and benefits of different forms of internal and external adjustment. Of course, these group-level vulnerabilities to specific policies are difficult to measure. To this end, we let respondents rate the different policies within external and internal adjustment (see Table 1) on a scale from 1 (strongly oppose) to 5 (strongly welcome). We the utilize the ratings of the policies displayed in each adjustment package as a proxy for how vulnerable groups assume to be to the specific policies they have to choose between.

Figure 5 displays boxplots of the average vulnerabilities to policies from within each strategy in the sample. On average, groups feel most vulnerable to a break-up of the Eurzone and least likely to policies that would reduce the current account surplus. However, as we will show below, these averages mask significant variation when it comes to specific policy options.

An obvious critique of our approach is that these subjective ratings are not necessarily based on material considerations. For example, an employer association could oppose an

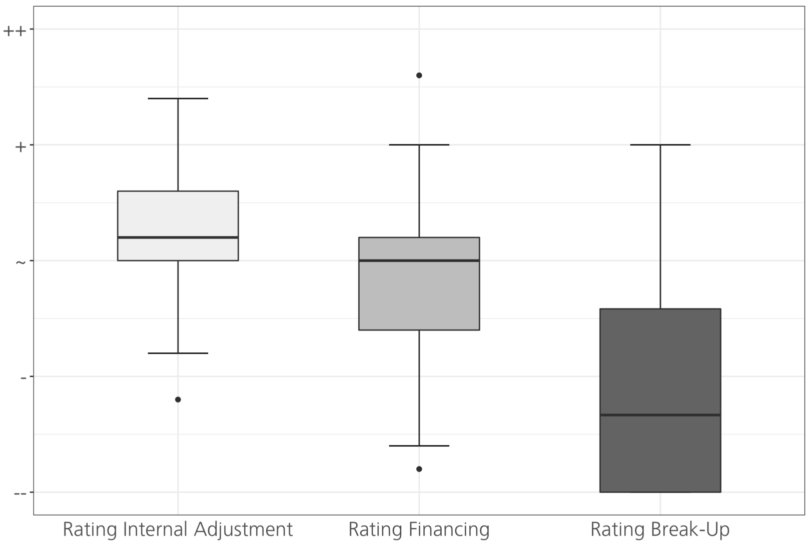


FIGURE 5: Figure 5 - Boxplots of average vulnerabilities to each adjustment strategy

increase of the minimum wage, not because it would hurt its members but because of a general ideological opposition against government intervention in the free market. We address this critique in two ways. First, we include variables that capture the general ideological disposition of groups (see below). Second, we also collect data on how "objectively" exposed groups are to different policies by categorizing each group according to the Statistical Classification of Economic Activities in the European Community (NACE) and matching them to economic data from the German Statistical Office. Based on this, we show that it's not ideology but mainly material considerations that inform policy ratings. The details of this procedure are presented ins section 6.

3.3 Control Variables

In addition, we include a number of control variables. To check for the effect of general economic orthodoxy suggested by arguments about ordoliberalism, w include a survey item that captures groups preferred level of state-intervention in the economy, ranging from 1 (large and encompassing interventions) to 5 (no interventions at all). Furthermore, we include an item measuring general attitudes towards European integration ranging from 1 (European integration has gone too far) to 5 (has not gone far enough). To account for the variety of group types included in the sample, we include organization-type fixed effects that capture if a group is an employer association, a professional association, a trade-union or a social-policy group. Other control variables on group demographics include a measure of group size and organizational capacities (measured as the number of full-time staff employed by a group) as well as dummy variable that controls whether a group represents a single sector (0) or a multitude of members active in different economic areas (1). Summary statistics for all variables are in the appendix.

4 Empirical Findings

What drives the crisis preferences of economic actors and how do they translate into politics? Below, we discuss our findings along the four main hypothesis set out in section three.

4.1 Most groups support some form internal adjustment

Contrary to much existing literature, we expect that interest groups support internal adjustment over other strategies as long as it comes in forms that benefit their material interests. Figure 6 supports this hypothesis. Considering only the most-liked options scenario, Panel A depicts the policy-specific vulnerability profiles of the groups in our sample. A clear majority is situated in lower two quadrants. These groups should benefit from the specific forms of domestic expansion we suggest to them and thus prefer internal adjustment over other strategies. Panel B shows that these vulnerabilities translate into the expected distribution of adjustment preferences. When we ask groups to choose their preferred crisis response amongst packages that list their favoured policies from within each strategy, a clear majority of almost 68% support internal adjustment.

Interviews amongst major economic interest-groups support this finding. A surprisingly large number groups perceives the current-account surplus to be macro-economically problematic. This includes all major trade unions[6] but also a wide range of employer associations amongst them even clearly export-oriented ones such as the association of the metal industry.[7] While others rejected the notion that Germany's large current-account surplus did play a role in the Eurocrisis, even these groups stated that the German economy in recent years clearly underperformed in terms of private and public investment and voiced

[6]Interview with Florian Moritz, DGB, 29.11.17 and Dierk Hirsche, verdi, 06.12.17, Berlin.
[7]Interview with Michael Stahl, Gesamtmetall, 28.11.17, Berlin.

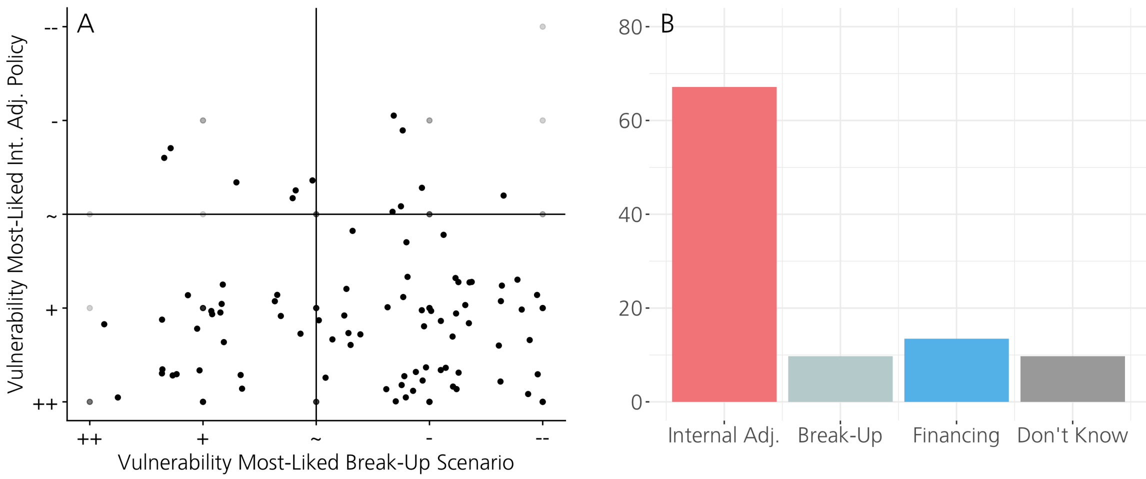


FIGURE 6: Figure 6 - Vulnerability Profiles and Adjustment Choices in Most-Liked Scenario

support for specific policies that would serve to counter this trend.[8] [9] Instead of building a unified front in favour of preserving export surpluses, most of the actors we interviewed thus were in favour of some measures that would increase domestic demand and reduce the surplus.

4.2 Groups are divided on how to adjust internally

Our argument suggests that policy-specific vulnerabilities to internal adjustment lead groups to diverge on the question how to achieve domestic expansion. Following their individual material interests, groups should not only be in favour of some internal adjustment policies, they should also oppose others. This should make it difficult to build unified coalitions support a rebalancing of the current account. Figure 7 presents evidence in line with this hypothesis. It displays density plots of the vulnerabilities to different forms of internal adjustment policies across group types. While on average, most groups think that they could benefit from some form of internal adjustment, there are clear differences in their perception of different alternatives. While, for example, a large majority of the trade unions, social policy groups and professional associations in the sample would benefit from a higher minimum wage or more spending on social welfare, most employer associations feel that this

[8] Interview with Reinhold Rickes, DSGV, 31.11.17 and Eckhard Rotter, VDA, 21.11.17.

[9] In addition, several employer associations noted concern about the international implications of the large surpluses, including exposure to shocks on foreign markets but also possible political repercussions if Germany fails to reduce the surplus.

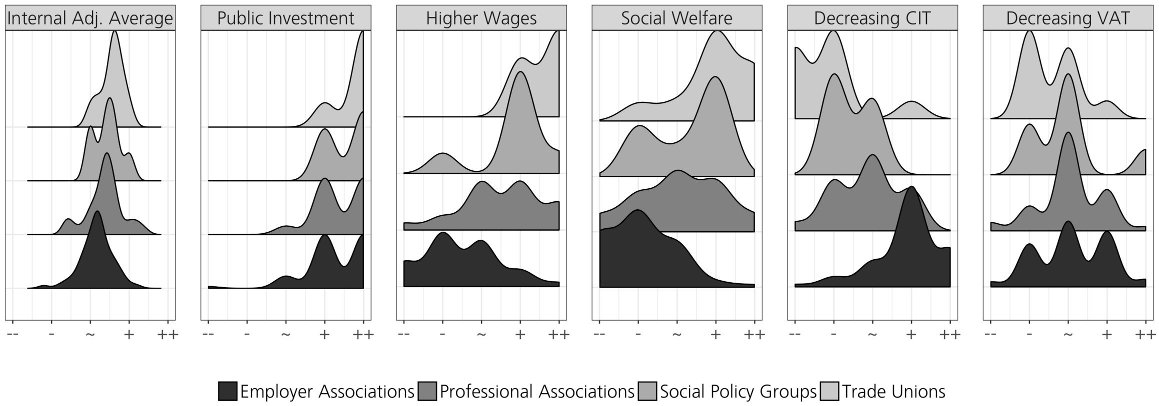


FIGURE 7: Figure 7 - Density plots of policy-specific vulnerabilities to different forms of internal adjustment across different group types.

would harm their interests. The picture looks exactly the opposite ways when it comes to lower taxes for businesses.

This fits well with what we learned from our interviews. All the trade unions we talked to stressed the need to increase the minimum wages, to expand tariff commitments and to re-regulation of opt-out clauses and temporary employment contracts.[10] At the same time, they fiercely rejected all forms of tax breaks for companies or efforts to deregulate the service sector in order to stimulate private investments - the last one being a concern that they shared with representatives of the craft association. Many employer associations, on the other hand, emphasized the expansive effects of corporate tax cuts[11], the cut-down of red tape in service industries[12] or the deregulation of credit provision.[13] At the same time, most industry groups had not only fought the introduction of the minimum wage in 2013 but still stated that they would have to lobby against further attempts to re-regulate labour contracts and tariff commitments. One point that all groups agreed on and which is also evident in Figure 7 was the need for more public investment, especially for road and digital infrastructure. However, opinions again diverged on the question how to finance these investments. While trade unions and craft associations demanded financing through public money and possibly new public debts, many employer associations insisted on the intro-

[10] Interview with Florian Moritz, DGB, 29.11.17 and Dierk Hirsche, verdi, 06.12.17, Berlin.
[11] Interview with Michael Stahl, Gesamtmetall, 28.11.17, Berlin.
[12] Interview with Eckhard Rotter VDA, 21.11.17.
[13] Interview with Reinhold Rickes, DSGV, 31.11.17

duction of more private-public partnerships, which would also provide new investment opportunities to large institutional investors.[14]

4.3 Financing ranks low on interest groups' political agenda

We propose that Germany's response to the Eurocrisis was shaped by distributional conflicts between different economic actors. Compared to internal adjustment, we expect these conflicts should be less pronounced when it comes to different financing policies. While the possible tools for spurring domestic demand and investment are all well-known, with clearcut distributive consequences and have been subject to long traditions of political struggles, the distributive implications of financing measures are rather abstract obscure and likely to be widely diffused. We expect that this leads groups to be more indifferent about and less politically engaged. Figure 8 presents evidence in line with this characterization. The left-hand panel shows boxplots of the average share of policies groups state to be in indifferent about in each category. While on average, groups have definitive positions (meaning to either support or reject them) on about 80% of the internal adjustment policies included in the survey, the same only true for about 63% of financing measures. The contrast between the two strategies is even starker when it comes to their political salience (right-hand panel). When asked how important the policies discussed in each category were for their political work, almost 80% of the groups stated that they are important or rather important in the case of internal adjustment. Only 25% said the same for financing policies. The rest characterize these policies as unimportant or rather unimportant for their political work.

Similarly, while most groups we interviewed supported financial rescue measures, the specificities of the bailout regime or further steps to institutionalize transfers did rank very low on their political agenda. [15] Even within the BDI, as the largest umbrella organisation of the German economy, there was no formal consultation about the question of financing policies to produce an official position. As a representative of a large umbrella associations for business groups put it: "The potential costs of these measures were never really thought of or discussed. [...] There are simply 50 other topics that are of much greater importance

[14]Interview with member of the Fratzscher Kommission, 05.12.17 and Dierk Hirsche, verdi, 06.12.17.
[15]E.g. Interview with Michael Stahl, Gesamtmetall, 28.11.17, Berlin.

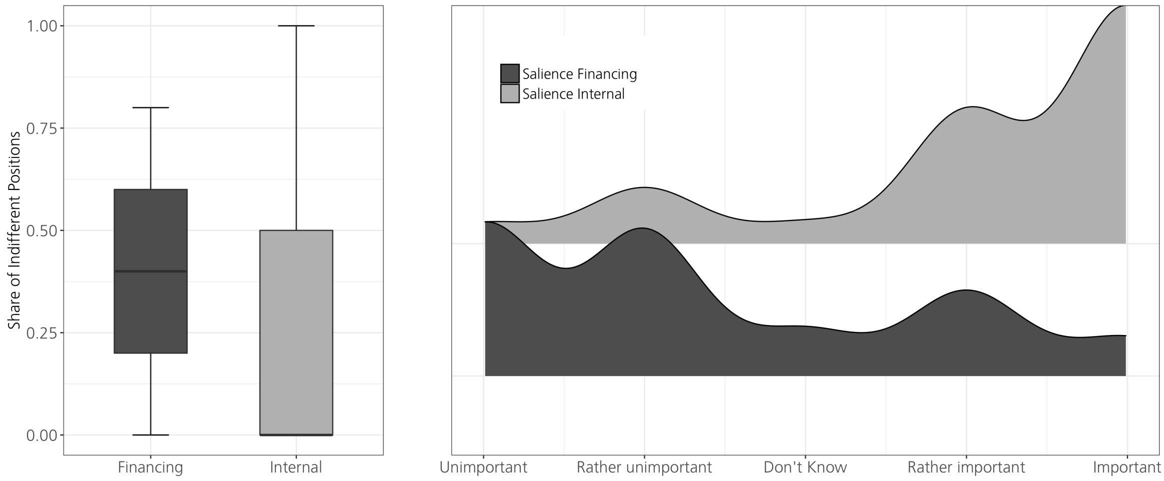


Figure 8: Figure 8 - Salience of Financing Policies

to our members."[16] In line with this characterization, none of the policy-maker we talked to could remember any consultations with interest groups about the nature of different financing measures. [17] [18]

4.4 Vulnerabilities to specific forms of internal adjustments drive support for financing

Due to the low salience of financing policies, we expect interstate transfers to be an attractive alternative for groups that are vulnerable to some forms of internal adjustment and that, at the same time, want to avoid a break-up of the Eurozone. Figure 9 starts investigating this argument. Panel A shows the vulnerability profiles of different interest groups with regards to their least-liked forms of internal and external adjustment. As expected, a large majority of groups in this scenario is vulnerable to both strategies. Accordingly, as illustrated in Panel B, support for domestic expansion drops to about 30% when we pressure groups to choose between strategies listing their least-liked alternatives. Support for financing, however, increases by more than 15% compared to the most-liked scenario.

To analyse what drives decisions in the least-liked scenario more systematically, Table 2 presents results of a logistic regression analysis of adjustment choices. The dependent

[16]Financing question were more important to trade unions. However, here they were mainly discussed with reference to the effects of the attached conditionality to workers in deficit countries and not so much with regards to potential distributional effects in Germany.
[17]Interview PM232, BMWi, 29.11.17, Berlin
[18]Interview PM 234,BMF, 06.12.17, Berlin.

TABLE 2: Logit Regression - Policy Rating And Likelihood of Chosing Adjustment Strategies

	Adjustment Choice - Least-Liked Packages			
	Internal Adjustment		Financing	
	(1)	(2)	(3)	(4)
Rating Least-Liked Internal Policy	0.554^{***}	0.613^{***}	-0.468^{***}	-0.460^{**}
	(0.152)	(0.191)	(0.149)	(0.199)
Rating Other Internal Policies (Av.)	-0.291	-0.544^{*}	0.337	0.406
	(0.299)	(0.310)	(0.251)	(0.316)
Rating Least Liked External	-0.236	-0.217	0.064	0.247
	(0.233)	(0.266)	(0.222)	(0.258)
Rating Other External Scenarios (Av.)	-0.335^{**}	-0.311^{*}	-0.101	-0.001
	(0.145)	(0.169)	(0.150)	(0.172)
Market Liberalism		-0.151		0.037
		(0.192)		(0.171)
European Integration		0.039		0.328^{**}
		(0.164)		(0.156)
Group Size		0.146		0.150
		(0.179)		(0.152)
Org. Type Fixed Effects	✓	✓	✓	✓
McFadden R-Square	0.21	0.36	0.12	0.32
Observations	127	104	127	104
Note:		*p<0.1; **p<0.05; ***p<0.01		

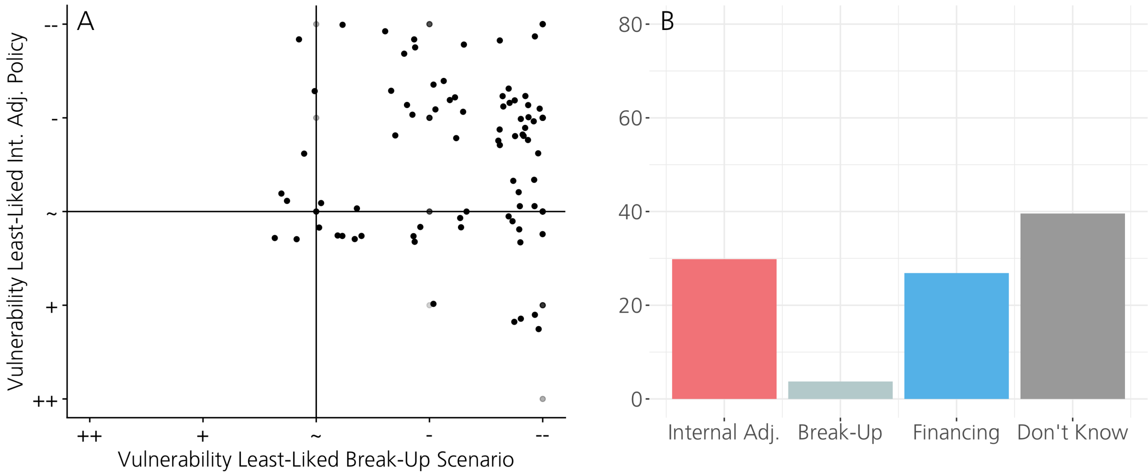


FIGURE 9: Figure 9 - Vulnerability Profiles and Adjustment Choices in the Least-Liked Scenario

variables take the value 1 when the respective adjustment strategy (internal adjustment or financing) is selected and 0 otherwise. Our argument suggests that a group's support for internal adjustment is determined by its policy-specific vulnerability to different alternatives of internal adjustment. Model 1 and 2 support this hypothesis. As evident from the insignificant effect of the variable measuring the average position on internal adjustment, a group's general vulnerability to internal adjustment has no impact on its likelihood to support this strategy in its least-liked form. However, the higher groups rank the specific internal adjustment policies suggested to them, the more likely they are to support domestic expansion. On the other hand, groups that feel vulnerable to internal adjustment should perceive financing as an attractive alternative. Model 3 and 4 find support for this hypothesis as well. Again, it is not a group's general outlook on policies that could contribute to more domestic demand and higher inputs but the expected effects of the specific policies under consideration that drive decisions. The more vulnerable groups feel to the suggested forms of internal adjustment (i.e. the lower they rank them) the more likely they are to go for financing. All of these findings are robust to the inclusion of variables controlling for the groups' general ideological position towards market liberalism and European integration.

To facilitate the interpretation of these results, Figure 10 plots the predicted probabilities of choosing internal adjustment and financing across different levels of vulnerabilities towards the suggested form of domestic expansion. Groups that very much like the internal adjustment policies that we suggest to them in the "unpleasant options" scenario have a pre-

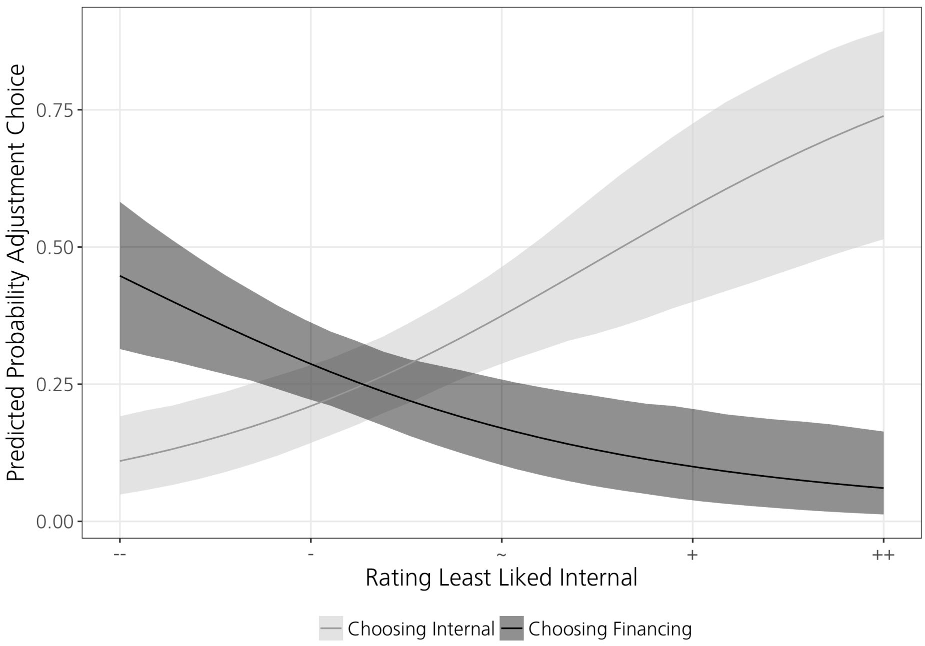


FIGURE 10: Figure 10 - Predicted probability of choosing internal adjustment vs. financing

dicted probability of about 75 % to select domestic expansion. Their predicted probability of going for financing, on the other hand, is less than 7%. Results are turned upside down for groups that feel very vulnerable to the internal adjustment policies under consideration. Now, the predicted probability of selecting internal adjustment lies only at about 10% while more the likelihood of supporting financing rises to more than 45%. The probability for a group to prefer financing over other crisis responses is thus larger the more vulnerable it is to the specific form of internal adjustment under consideration.

To avoid unpopular forms of internal adjustment, groups seem to be ready to engage in costly interstate financing. But why not simply let the monetary union fail? Our argument suggests that financing should be attractive for groups that are not only vulnerable to specific forms of internal adjustment but which also want to avoid a break-up of the Eurozone. To investigate this argument, we rerun the logistic regression in model 4, this time including an interaction term between the perceived vulnerability towards internal and external adjustment. Results presented in Figure 11 support our predictions. The effect of being vulnerable to the internal adjustment policy under consideration on the likelihood of choosing financing is only positive and significant when groups at the same time very much dislike the proposed break-up scenario. It gets smaller and insignificant with waning opposition

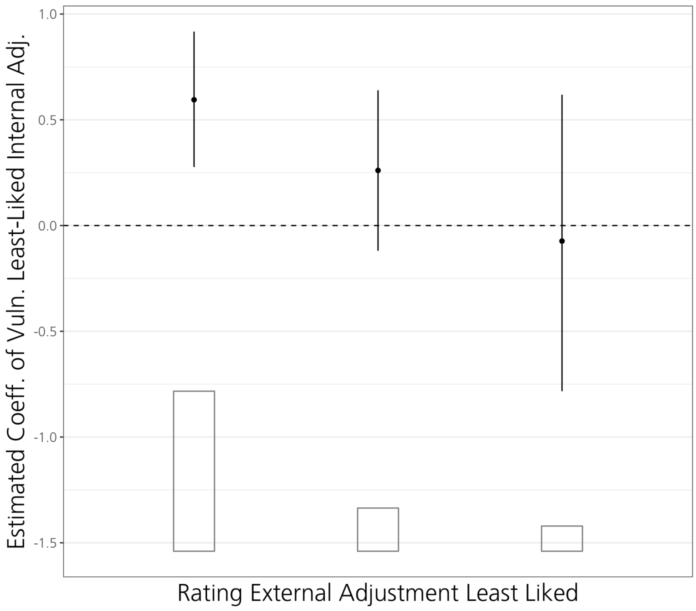


Figure 11: Figure 11 - Probability of choosing finance: Interaction of vulnerability towards external and internal adjustment

towards external adjustment. However, note that more than 70% of our groups strongly oppose their least-liked form of external adjustment and there is not a single group that would actively welcome it. Strong opposition against a break-up of the union together with policy-specific vulnerabilities towards specific forms of internal adjustment thus motivate groups to support financing as their preferred crisis response.

Summing up, we find evidence for our main hypotheses. A majority of groups prefers internal adjustment over other possible crisis responses as long as domestic expansion is achieved through policies that serve their interests. The costs and benefits of different internal adjustment policies, however, differ across groups, resulting in distributional conflicts about the specific form of internal adjustment. Together with the low salience of financing policies, this makes interstate transfers attractive. The more groups oppose specific forms of internal adjustment, the more likely they are to support even their least-liked forms of financing. This is especially true as a large majority feels vulnerable to external adjustment.

5 Alternative Explanations

How well does the evidence presented so far hold up against existing explanations of the politics of non-adjustment in Germany? We find that group level preferences are more diverse than both structuralist and constructivist explanations of Germany's lack of adjustment in the Eurocrisis would predict. At the same time, adjustment preferences seem to be driven by the trade-offs actor make between their subjective vulnerabilities to internal and external adjustment. However, structuralist authors might point out our subjective vulnerabilities measures may not necessarily capture individual material considerations but differences in the concerns for German export-led growth model. Similarly, more ideas-centred scholars might note that differences in evaluations of different policies could be driven by differences in the ordoliberal creeds of different groups.

To address both of these concerns, we analyse how well objective data on the material exposure of economic groups towards different forms of adjustment predicts their subjective vulnerabilities. To that end, we first use the Statistical Classification of Economic Activities in the European Community (NACE) to code groups according to the main economic activities in which their members engage.[19] We then collect data on how exposed the so categorized groups are to external adjustment and to what degree they could win or lose from internal adjustment. First, to measure vulnerability to a break-up of the Eurozone we use data on each group's share of total output that is exported to other Eurozone members (export dependence) from the input-output tables provided by the German statistical office (Destatis, 2017). Second, to assess how much a group could benefit from domestic expansion we use the income elasticity of demand for the main goods it provides. This elasticity measures to what degeree an increase in aggregate income translates into more demand for a specific good or service. The higher the demand elasticity for a group, the more it should thus be able gain from higher domestic demand. We make use of several empirical studies (European Union, 2007; European Union, 2008) as well as the COICOP categorization of the UN Statistics Division to construct an ordinal scale of demand elasticity that ranges from 1 for very inelastic goods (such as food and tobacco) to 6 for very elastic goods (e.g. financial services and personal care activities). The main costs of internal adjustment are likely to stem from higher unit labour costs and an associated decrease of the competitiveness for domestic firms. We measure vulnerability to internal adjustment as the wage sensitivity of different groups. This variable is based on the share of personnel costs in a sector's total

[19] At the two-digit-level, this categorization scheme allows me to differentiate between 99 distinct fields of economic activity, of which 55 are represented in the German sample. For groups which represent actors from more than one sector, we calculate independent variables by taking the unweigthed averages of all the sectors present amongst their members.

costs. The higher this share, the more sensitive a group should be to an increase of domestic wages. The variable is again based on the German input-output table (Destatis, 2017). As wage-costs are only relevant for employers, we interact this variable with a dummy indicating whether a group represents firms' interests or not. Again, we include control variables accounting for the general ideological leaning of the group.

Figure 12 plots the results of a regression of these objective vulnerability measures on the policy ratings we used as subjective measures of vulnerabilities. For each strategy, it includes an average across all policies as well as two illustrative examples of other policies. Even though we use rather blunt macroeconomic measures, results are generally in line with our expectations. As predicted by our argument, measures of material exposure have a statistically significant effect on subjective vulnerabilities, even after controlling for ideological factors. Groups that produce goods with higher income elasticities of demand rate internal adjustment policies more positively. This is true for the average across all internal adjustment policies but the effects are especially strong for higher minimum wages and a reduction of the VAT - both of which would increase the domestic income very directly. Groups that are more wage sensitive and for which an increase of the domestic wage level would thus translate into higher costs, on the other hand, rate internal adjustment policies lower. However, the effect is only statistically significant for the most targeted policy to increase of the wage level: an increase of the minimum wage. Our objective objective measure work less well when it comes to predicting subjective vulnerabilities towards a break-up of the Eurozone. Groups that are more export dependent rate different break-up scenarios lower. However, the effect is not statistically significant. One likely reason is that all most all groups in our sample feel highly vulnerable to a break-up of the monetary union, independent of their direct exposure. This was also evident from our interviews. Even groups that are clearly domestically oriented feared the general turmoil and insecurity of a break-up. While, for example, the craft association has hardly any economic interests outside of Germany, they worried that potential losses in the German financial sector would translate into credit crunches for their members.

However, material exposure still played a role in the evaluation of policies at the European level as well. Model 3 in Figure 12 shows that export orientation does have a strong and significant effect of groups' ratings of financing policies. Groups that export more to Europe rate financing policies on average higher and also evaluate the possibility of haircuts on debts that are held by official or private lenders more positively. Again, the finding is robust for the inclusion of ideological controls.

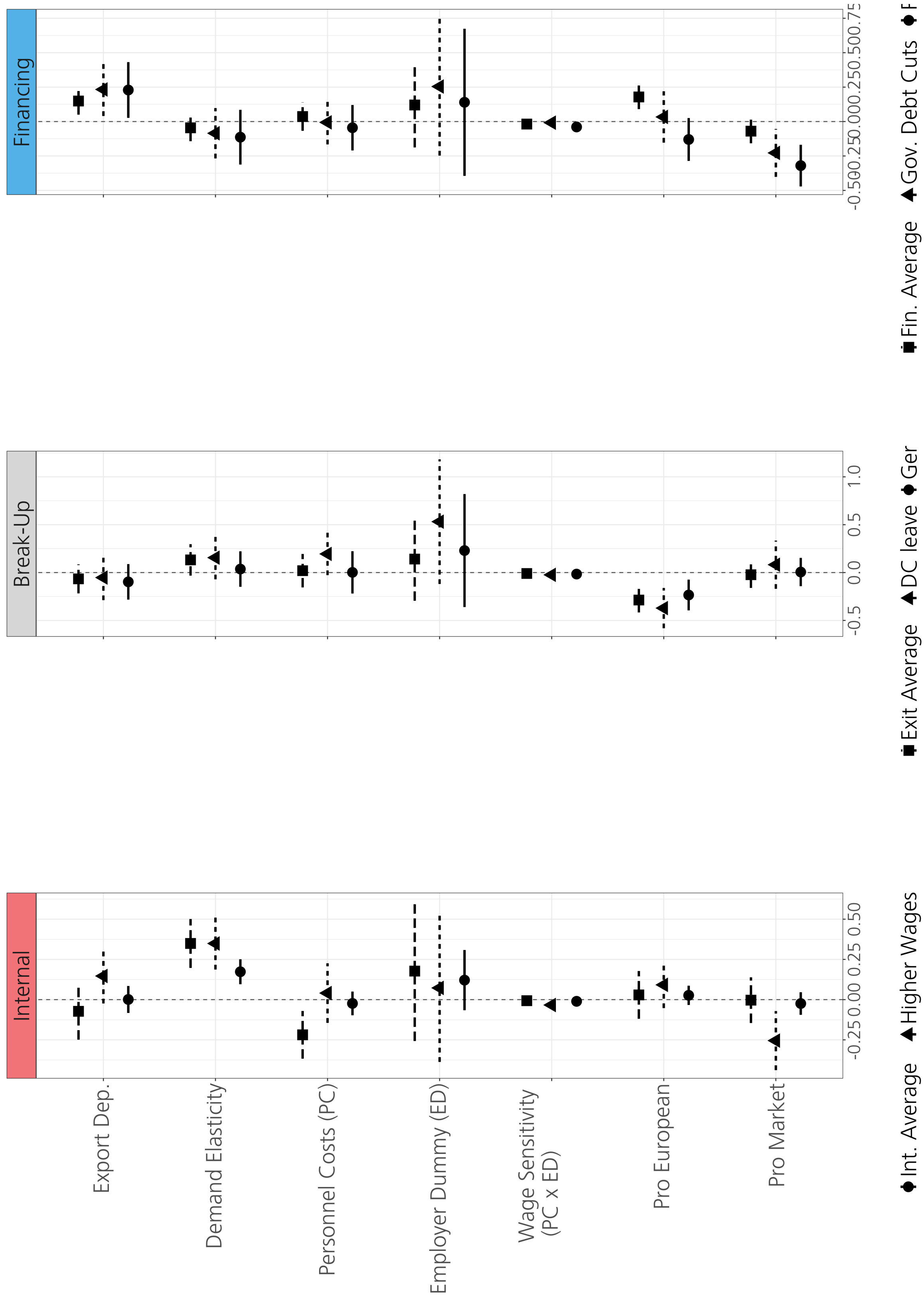


Figure 12: Figure 12 - Objective measures of exposure predict subjective vulnerabilities

Interviews with main interest groups substantiate these findings. First, whereas most interest groups were very much aware of how different crisis responses would affect their members, concerns about the German growth model ranked low on their agenda. Contrary, to more structuralist theories, for example, even trade unions in the export-oriented sector stressed the need for an increase of the domestic wage level and emphasized that wage-moderation in recent years was much more driven by a weakening of trade-unions bargaining position than by strategic efforts to safeguard the sector's competitiveness. Second, while some of our interview partners would at points refer to ordoliberal arguments to buttress their interpretation of the Eurocrisis - especially when talking about the structural problems of deficit states - they would use these arguments in rather flexible ways and did not stick to ordoliberal frameworks when pressed about issues that were close to their material interests. For example, almost none of the actors we talked to opposed the German bailouts of 2008 or the provision of emergency credits to crisis countries in order to limit contagion risks for the German banking sector even though these measures can hardly be reconciled with the ordoliberal principle of economic self-responsibility. Similarly, interest groups across the board welcomed the highly interventionist fiscal crisis package of 2008. As a representative of a ordoliberal business group put it: "I think many business associations in principle agree with us about how the economy should be run. But when it comes to political decisions, self-interest often trumps economic principles."

6 So What? Implications of Interest-Group Findings

So far, we have presented our findings on the drivers of interest group preferences in the Eurocrisis. In this last section we turn to presenting some ideas on how these preferences mattered for the politics of non-adjustment and how our findings tie in with the existing literature on surplus countries in the Eurocrisis.

6.1 Implications at the National Level

At the national level, distributional conflicts about the form of internal adjustment meant that there was no concerted effort amongst economic interest group to push towards an encompassing program for expanding the domestic economy. As a representative of a large umbrella organization put it "of course the main employer associations - for microeconomic reasons - have to come out against such measures [authors note: higher minimum wage, re-regulating contracts]. But then in tripartite exchanges trade unions say 'But that's exactly what we want.' [...] Nobody is thinking about these things in an overall economic context. So that's what makes it difficult." As evident from our interviews and the survey data, most groups claim that they did lobby in favor of some forms of internal adjustment - however, they were very specific with regards to what forms and their efforts often directly contradicted each other. The gridlock on how to adjust internally between interest-groups, was mirrored at the level of policy-makers, especially during the grand coalition after 2013. A former member of parliament for the SPD stated: "It was always our position that we should do more spending on infrastructure etc. and do something about the wage level - that's also what we did with the introduction of the minimum wage in 2013. But of course there are limits to what you can do as long as the CDU governs." Similarly, several policy-makers with close ties to the CDU complained about the lack of the SPD's willingness to take more extensive measures to increase private investment after the crisis.[20] Distributional conflicts amongst economic interest groups thus produced important barriers against pursuing internal adjustment in Germany.

However, our results also indicate that economic groups were quite open to different options of interstate transfers. So why was the German approach to financing still restrictive and tied to strong conditionality (Schneider and Slantchev, 2017; Bechtel et al., 2014)? While we can only speculate, we illustrate one possible answer with representative public opinion data from 2010-13. Figure 13 shows the German public shared the interest of economic groups' in keeping the EZ together. With the exception of Greece, a large majority of voters was against any deficit country leaving the common currency, even at the hight of the crisis in 2011. Similarly, almost three quarters of the public thought that returning to a national currency would be bad for Germany. While German voters thus did not show much appetite for external adjustment, they were also deeply skeptical about interstate financing. As indicated by Figure 14, more than 70 percent were generally against financial support for highly indebted countries and opposition was even stronger when asked about concrete measures such as the expansion of the European rescue funds and the introduction of Eurobonds. Importantly, this rejection was universal across party lines. Though the level opposition differed slightly, a majority of supporters of every party did respond negatively to these financing question. And finally, while financing was of little importance for interest group, they did matter a great deal to voters. When asked in 2013, more than 85

[20] Interview with PM 234, BMF, 06.12.17, Berlin. Interview with MP Heribert Hirte (CDU), 08.12.17, Berlin.

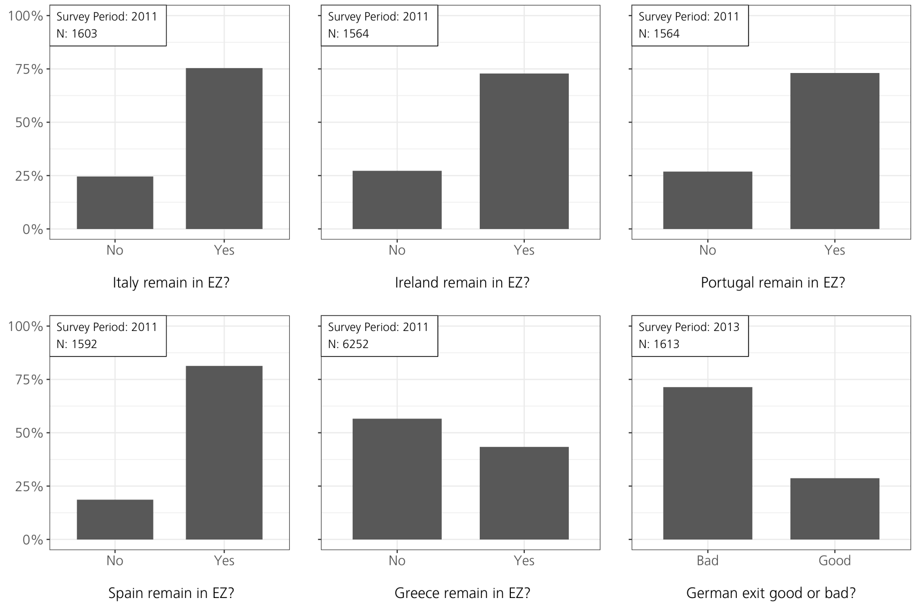


Figure 13: The German public opposed external adjustment. Data from Politbarometer (2011-13)

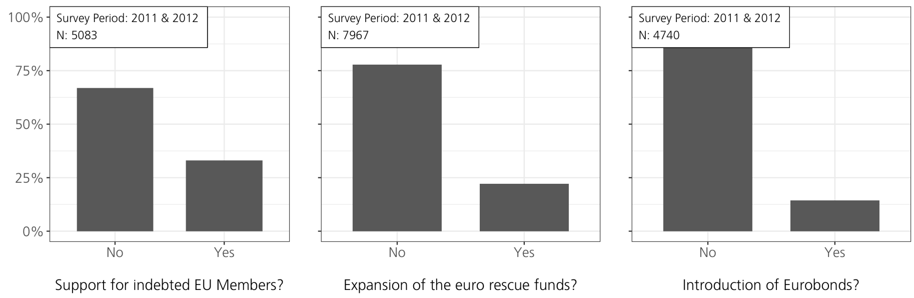


Figure 14: The German public was skeptical about financing. Data from Politbarometer (2011-13)

percent noted that the management of the Eurocrisis would matter or even matter a lot for their electoral decisions. The issue was thus more example than some domestic issues such as for example tax policies (Polibarometer, 2013).

While our results have shown that distributional conflicts amongst interest groups made internal adjustment a difficult strategy to pursue, data on public opinion thus hints at the fact that there also were little electoral incentives for embracing a more encompassing and less hesitant stance on interstate financing - a perspective was also confirmed in our own interviews with policymakers in Germany. Being jammed in-between interest groups blocking internal adjustment and voters that opposed interstate financing, thus provides a plausible explanation for the German hawkishness in the crisis .

6.2 Implications at the International Level

At the international level, existing literature points out that surplus countries held very similar positions during the crisis. While Germany was a key actor, its rejection of internal adjustment and harsh stance on financing was shared by countries like Finland, Austria or the Netherlands (Armingeon and Cranmer, 2017; Matthijs, 2016b). This homogeneity of positions facilitated coalitions building amongst creditor states and added to their political leverage (Schimmelfennig, 2015b). Our argument may help to make sense of this homogeneity. If distributional conflicts around the specificities of internal adjustment were similar in other surplus states, this would add to our understanding of why none of these countries broke rank and called for a more balanced approach to adjustment.

Against this background Figure 15 and 16 present findings from interest-group surveys in Austria and the Netherlands. Taken together, we collected another 223 responses (NL: 116 (response rate 29%); AT: 105 (response rate 26%)) using the same method as in Germany. As expected, the pattens are very similar across these countries. As in Germany, a large majority of economic groups in Austria and the Netherlands would prefer their most-liked form of internal adjustment over any other crisis response. However, as before support for internal hinges on its specific policy content . A majority of groups actually prefers financing when they are confronted with trade-offs between their least liked forms of adjustment. Finally, 16 shows that support for financing is driven by the groups' vulnerability to internal adjustment. The stronger a group opposes its least-liked form of internal adjustment, the larger its probability to support financing.

We interpret this as evidence that our argument holds across different surplus countries. Distributional conflicts about the how to expand the domestic economy made internal adjustment politically difficult to achieve in all creditor states. While the macroeconomic effects of spurring domestic demand in the Netherlands or Austria arguably would not have had much of an effect for the Eurzone as a whole, this finding helps us to explain why none of the other surplus countries challenged Germany's of towards internal adjustment.

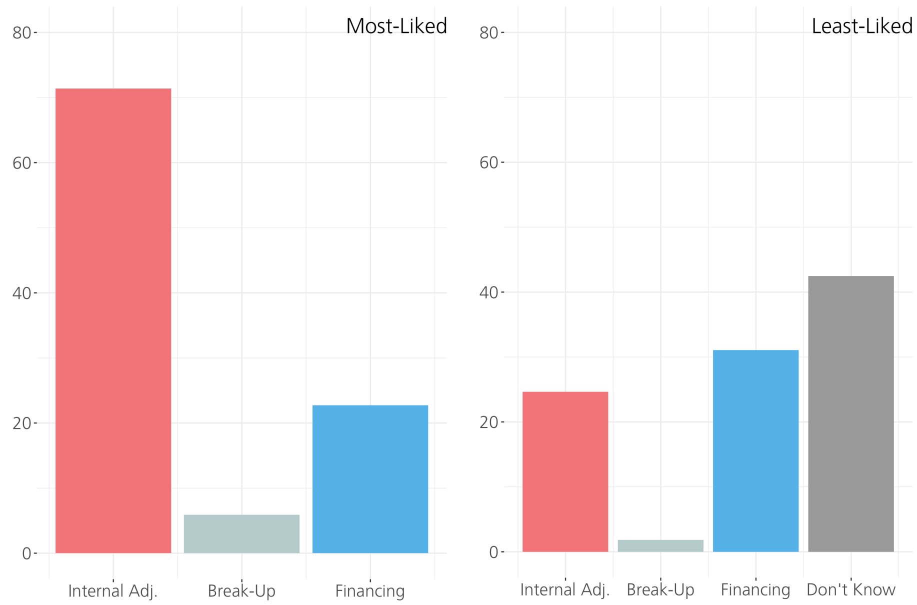


FIGURE 15: Adjustment Choices in Austria and the Netherlands

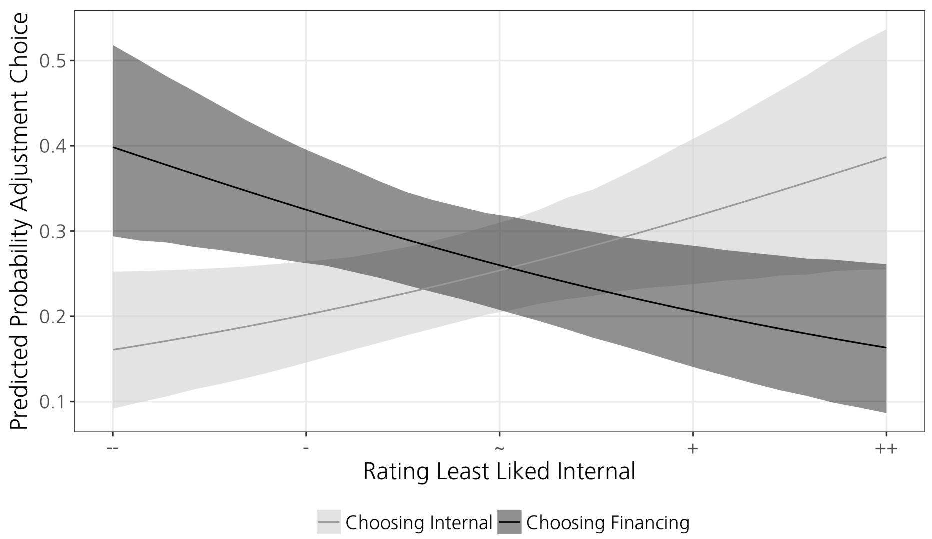


FIGURE 16: Predicted Probabilities of Choosing Internal Adjustment and Financing in Austria and the Netherlands

7 Conclusion

The debate about the German current-account surplus and its role for the emergence and management of the Eurocrisis has long turned into one of the evergreens of EU politics. At the same time, many outside observers are puzzled: why would a country facing a lack of domestic demand and investment refuse to share the costs of adjustment in the Eurozone, if doing so could not only foster its own economy but also hush a diverse choir of international critics?

Our paper suggests that one reason for this lies in rather profane politics. Leveraging original survey data and in-depths interviews with representatives of economic interest groups, we show that German non-adjustment is partly rooted in distributive struggles about the design of possible adjustment policies. Although we find general support for strengthening domestic demand, different groups disagree about how to achieve this goal. Together with a broad consensus to avoid a break-up of the Eurozone, the polarization on the specificities of internal adjustment has made financing the politically most viable strategy.

Our findings have a number of political and theoretical implications. First, our evidence suggests that the German current-account surplus is less structural than existing explanations assume. Some authors propose that the common currency is doomed to fail since German export-orientation will always lead to current-account imbalances (Höpner and Lutter, 2014b). Others think that its impossible to unite countries with fundamentally different economic beliefs and traditions into a monetary union (Brunnermeier et al., 2016). We agree that both strands of literature pinpoint to important issues. However, our findings also suggest that it would be possible to arrive at a more balanced current-account by designing packages of internal adjustment that garner broad-based political support. As we show above, this is by no means an easy task and requires difficult compromises. But there is nothing that dictates Germany to run surpluses at the current magnitude. For the Eurozone, this is good news. Second, at least form the perspective of economic interest group, there is political room to manoeuvre to engage in further financing measures such as haircuts on outstanding debt or even more institutionalized forms of interstate transfers. Of course, here voter preferences and the way they are perceived by German parties are going to be a crucial and maybe limiting factor. But at least from important economic interest groups, we would expect little resistance against further fiscal integration.

Finally, our findings also have important implications for studying the political economy of balance-of-payment crises and global imbalances more generally. So far, research on these issues has been characterized by a one-sided focus on the role of deficit states. However, our findings from Germany suggest that distributional conflicts within surplus countries play a crucial role in the build-up and maintenance of imbalances. Understanding these conflicts and how they play into the stickiness of large current-account surpluses in more detail, will be crucial for arriving at a better understanding of the drivers of global financial imbalances.

8 Appendix

8.1 Additional Figures and Tables

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Table 3: Summary Statistics - Subjective Vulnerabilities

Statistic	N	Mean	St. Dev.	Min	Max
Rating Int. Adj. Average	130	3.27	0.44	1.80	4.40
Rating Higer Wages	131	3.02	1.21	1	5
Rating More Welfare Spending	132	2.58	1.17	1	5
Rating Public Investment	132	4.38	0.70	1	5
Rating Lower CIT	131	3.34	1.09	1	5
Rating Lower VAT	132	3.05	0.87	1	5
Rating Financing Average	130	2.80	0.61	1.20	4.60
Rating Emergency Credits	130	3.42	0.90	1	5
Rating EU Unempl.	131	2.65	1.09	1	5
Rating Gov. Debt Cuts	132	2.74	1.05	1	5
Private Debt Cuts	131	2.63	1.05	1	5
Rating ECB Asset Purchases	131	2.59	1.01	1	5
Rating Break-Up Average	130	1.94	0.82	1.00	4.00
Rating DCs leave	131	2.27	1.17	1	5
Rating North/ South Divide	130	2.06	0.99	1	4
Rating Germany leaves	130	1.49	0.87	1	5

Table 4: Summary Statistics - Objective Variables & Controls

Statistic	N	Mean	St. Dev.	Min	Max
Export Intensity	134	0.03	0.05	0.00	0.19
Share of Imported Inputs	133	6.92	5.79	0.00	33.23
Income Elasticity of Demand	133	3.86	1.44	1	6
Personnel Costs/ Total Costs	134	34.63	17.34	5.95	100.00
Pro European Attitudes	109	3.67	1.05	1	5
Pro Market Attitudes	107	3.39	1.01	1	5
Organisation Staff Size/ 10	134	96.97	392.66	0.00	3,600.00

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